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Ukraine: Current Issues and U.S. Policy

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Summary

In February 2014, the Kremlin-supported government of Ukrainian President Viktor Yanukovych collapsed. The demise of the regime was brought about by bitter protests that had erupted in Kyiv's Maidan Square in late 2013 over a decision by the government to reject closer relations with the European Union. What followed the turmoil of early 2014 was the emergence of a pro-Western, pro-reform government and an energized public generally anxious to lessen Moscow's influence, committed to addressing the need for serious reform, and determined to draw closer to Europe and the United States.

Despite the current Kyiv government's commitment to reform, the pro-Western political and economic orientation, and the presence of a vibrant, yet frustrated, civil society dedicated to the implementation of change, Ukraine remains far from achieving the political and economic stability and internal security sought by the supporters of the Maidan. In fact, 2016 has already proven to be a very unsettling time for the government as frustrations have mounted over the slow pace of political reform and economic progress by pro-reformers and the West. These shortcomings initially resulted in the resignations of a popular, reform-minded economy minister and a deputy prosecutor and in warnings from the head of the International Monetary Fund (IMF) and several European nations that Ukraine risked losing continued international financial support if progress was not made. When two political parties quit the coalition government, a new crisis was created. These events were quickly followed by calls by some in the political opposition and the general public to replace the government of Prime Minister Arseniy Yatsenyuk and by a decision by President Petro Poroshenko to ask for the resignations of Yatsenyuk and Prosecutor General Viktor Shokin, who many accused of running a corrupt office. Shokin offered his resignation, which was accepted in March, but Yatsenyuk took his case to the Rada (Ukraine's parliament) and barely survived a vote of no confidence on February 16, 2016. Despite surviving the vote, Yatsenyuk could not reconstitute a new coalition government. Yatsenyuk's term as prime minister ended on April 14, 2016, when the Rada voted to support Volodymyr Groysman, the Speaker of the Rada and a close associate of President Poroshenko, as the new prime minister.

Contributing to Kyiv's problems have been Ukraine's rampant corruption (ranked 130 out of 168 by Transparency International), the refusal of a small group of old-time oligarchs to relinquish power or influence, the government's apparent reluctance to seriously challenge these oligarchs, and other shortcomings in the rule of law. The confluence of these factors, according to some, has stifled the implementation of democratic best practices, hindered strong democratic institution building, and exacerbated long-standing problems in attracting financial support and foreign investment.

In 2014, as the new government in Kyiv, led by President Poroshenko and Prime Minister Yatsenyuk, sought international financial assistance, the IMF estimated Ukraine could require some \$40 billion to address the needs of the country. Since then, the IMF and Ukraine have agreed on a loan package of close to \$22 billion over four years, some \$6.7 billion of which has been disbursed. The European Union (EU) has committed over €11 billion (about \$15.5 billion) in aid for Ukraine and is considering further assistance. In January 2016, a new free trade agreement between the EU and Ukraine went into effect, potentially opening new opportunities for Ukraine's economic development.

According to the Department of State, since 2014, the United States has committed over \$550 million in assistance to the government in Kyiv, in addition to two \$1 billion loan guarantees to help the new government carry out political and economic reforms and bolster the capabilities of its security sector, including its army. U.S. economic and technical experts advise almost a dozen Ukrainian ministries and localities. The United States has provided some \$69 million in

humanitarian support to help displaced Ukrainians through international relief organizations and local nongovernmental organizations (NGOs).

Ukraine's problems, however, are not solely political and economic. Russia responded to the change of government in Kyiv in 2014 by seizing Ukraine's Crimea region and annexing it on March 18, 2014. In April 2014, armed pro-Russian separatists supported by Moscow seized parts of the Donbas region of eastern Ukraine. A 12-point agreement to end the conflict, known as Minsk-2, was signed in Minsk, Belarus, in late 2014 by the leaders of Russia, Ukraine, France, and Germany. The agreement took effect in February 2015.

The United States strongly condemned Russia's annexation of Crimea and its incursion into eastern Ukraine and, along with the EU, the United States imposed sanctions against Russian individuals and key firms initially for seizing Crimea. These sanctions have continued and were enhanced in response to Russia's continued aggression and activity in eastern Ukraine.

In December 2014, President Obama signed H.R. 5859, the Ukraine Freedom Support Act. The measure authorized the President to impose sanctions on Russian defense, energy, and other firms and foreign persons; authorized increased military and economic assistance for Ukraine; authorized funding for U.S. Russian-language broadcasting in the region; and offered support for Russian civil society and democracy organizations. The legislation also urged the Administration to provide weapons to the Ukrainian military, but the Obama Administration rejected the idea, viewing it as risking a further escalation of the conflict. Additional legislation supporting Ukraine is likely to be considered by the House and Senate in 2016.

This report provides an overview of the situation in Ukraine.

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Figure 1. Ukraine

Sources: Map created by CRS. Map information generated by Hannah Fischer using data from the National Geospatial Intelligence Agency (2016), Department of State (2015), Esri (2014), and DeLorme (2014).

Background

Ukraine, comparable in size and population to France, is a large, important, European state. It occupies the sensitive position between Russia and North Atlantic Treaty Organization (NATO) member states Poland, Slovakia, Hungary, and Romania. Because many Russian politicians, as well as ordinary citizens, have never been fully reconciled to Ukraine's independence from the Soviet Union in 1991, there was strong Russian support for the annexation of Crimea and a continuing belief that the country belongs in Russia's political and economic orbit. It has been reported that in 2008, Russian President Putin told U.S. President George W. Bush that Ukraine was not a state and that while the western part of the country may belong to Eastern Europe, eastern Ukraine was Russia's.¹ On the other hand, the U.S. and European view (particularly in Central and Eastern Europe) is that a strong, independent Ukraine is an important part of building a Europe that is whole, free, and at peace.

Since Ukraine achieved independence in 1991, Ukraine's political scene has been dominated by "oligarchs" (powerful, politically well-connected businessmen, mainly based in eastern and southern Ukraine), which had divided up the country's economic assets among themselves and regularly manipulated the government budget for their own profit. President Viktor Yanukovych,

¹ Stephen Blank, "Perspectives on Russian Foreign Policy," Army War College Strategic Studies Institute, September 2012.

who was elected in February 2010, drew his main support from oligarchs from the Donets Basin (Donbas) region of eastern Ukraine. His government was criticized for high levels of corruption, in part committed by Yanukovych's own family and close associates. U.S. and European Union (EU) officials expressed strong concern over the government's human rights record, especially the targeting of opposition leaders for selective prosecution.

Many observers had believed that, despite growing dissatisfaction with the Yanukovych government beginning in 2013, there was little likelihood of public unrest in Ukraine, given the failure of the government that emerged after the 2004/2005 pro-democracy "Orange" revolution as well as widespread disillusionment with the political class as a whole. However, in November 2013, the Yanukovych government, under pressure from Moscow, made a last-minute decision to not sign an association agreement with the European Union that would have aligned Ukraine more toward Europe, at least in the areas of economics and trade. The decision sparked anti-government demonstrations in Kyiv's central *Maidan Nezalezhnosti*, or Independence Square. Smaller protests occurred in other Ukrainian cities, mainly in opposition strongholds in western and central Ukraine. Observers noted that when government security forces took forceful actions against the demonstrators, public reaction shifted from just protesting against Ukraine's failure to sign the association agreement to the government's lack of respect for the basic human dignity of Ukraine's citizens.

In February 2014, when the Yanukovych government embarked on its most violent crackdown against the Maidan, resulting in over 100 persons being killed, it quickly sealed its own demise. The death toll likely caused support for the crackdown in the government-controlled Ukrainian Rada (parliament) to evaporate and, ultimately, the regime to collapse. On February 20, 2014, the Rada approved a resolution calling for the withdrawal of the Interior Ministry and military forces from the streets of Kyiv to their bases. As protestors began occupying government buildings and as the situation in the streets became more chaotic, Yanukovych and many of his supporters in the government and parliament fled, including to Russia. After Yanukovych and his supporters abandoned Ukraine, the Rada, now composed mainly of former opposition deputies, rapidly passed sweeping measures to address the unrest and reform the government. The parliament formally deposed Yanukovych as president on February 22 for abandoning his duties. The parliament restored many democratic provisions of the 2004 Ukrainian constitution, eliminating changes made by Yanukovych to strengthen the presidency, and ordered new presidential elections to be held on May 25, 2014. On February 27, 2013, the Ukrainian parliament approved a new, interim government, headed by Arseniy Yatsenyuk, a former prime minister. Despite the rapid changes and formation of a new government, many Maidan protestors viewed the new government skeptically, suspecting that it was nearly as opportunistic and corrupt as the Yanukovych regime.

Ukraine's Current Political Situation²

On May 25, 2014, Ukraine held a presidential election. The winner, Petro Poroshenko, a pro-Western billionaire, took 54.7% of the vote. Voter turnout for Ukraine as a whole was around 60%. The lowest turnout was in the Donetsk and Luhansk regions in eastern Ukraine, the stronghold of former President Yanukovych and where pro-Russia separatist gunmen seized polling places and used threats, kidnappings, and other forms of intimidation to stop the vote.

In October 2014, Ukraine held a national election for the 450-seat Rada. The main victors were the Petro Poroshenko Bloc, with 132 seats, and the People's Front, led by Prime Minister Viktor Yatsenyuk, with 82 seats. Poroshenko and Yatsenyuk subsequently formed a coalition of pro-West parties that included the Samopomich (Self-Reliance) Party, the populist Radical Party, and the Fatherland Party. This coalition gave the incoming government a majority of 288 seats.

The Opposition Bloc, composed of supporters of the Yanukovych regime, won 29 seats. Far-right groups, often held up by Russian propaganda as neo-Nazi gangs dominant in Ukraine, did very poorly. One group, Svoboda, won only six seats, while another, Right Sector, won only one. Due to the inability to hold elections in districts threatened by Russian-backed sympathizers, several of the 450 seats in the parliament remain unfilled.

The overall result was a victory for forces in favor of closer ties with the EU and the United States. On December 2, 2014, the incoming parliament approved a new government again led by Yatsenyuk, who returned as prime minister. Representatives of the leading political groups were all included in the government. With the Poroshenko/Yatsenyuk coalition commanding the majority of seats, many believed the government not only would be able to adopt much-needed reform legislation but also would be in a strong position to garner the 300 votes needed to pass amendments to the Ukrainian constitution to strengthen democracy and rule of law.

Prime Minister Yatsenyuk maintained that Ukraine's main goal was to adopt European standards, with the ultimate objective of EU membership for Ukraine. He consistently reiterated that a key focus of his government would be to fight corruption, including by reducing government regulation and the size of the bureaucracy along with minimizing the influence of certain elements of Ukraine's society. He stated that the government would cut the number of taxes it collects and devolve more budgetary power to local authorities.

In important symbolic moves, Yatsenyuk appointed a U.S. citizen and former State Department official, Natalie Jaresko, as Ukraine's finance minister; Aivaras Abromavicius, a Lithuanian citizen, as economy minister; and a health minister from Georgia. The former president of Georgia, Mikheil Saakashvili, was appointed mayor of Odessa. These moves were likely intended

Ukraine: Basic Facts

Area: Land area approximately 315,028 sq. mi.; slightly smaller than Texas.

Capital: Kyiv

Population: approximately 44.4 million (CIA, *The World Factbook*, July 2015 est.).

Ethnicity: 78% Ukrainian; Russian: 17%

Languages: Ukrainian is the official language and first language of 67% of the population. Russian is spoken by 29%.

Religion: 67% Orthodox Christian

Gross Domestic Product: \$371 billion; per capita GDP is \$8,700 (CIA, *The World Factbook*, 2014 est.).

Political Leaders: President: Petro Poroshenko (since 2014); Prime Minister: Volodymyr Groysman (since 2016); Foreign Minister: Pavlo Klimkin; Defense Minister: Sepan Poltorak

² Some of the information in this report appeared in previous versions written by Steven Woehrel.

to signal that the new government was dedicated to initiating reforms and moving the country toward the West and that these key figures were not from what many Ukrainians believe was the country's morally compromised political elite.

Ongoing Challenges: Political Reform

After taking office, President Poroshenko launched several political, economic, and judicial reform initiatives designed to reassure the population, and the West, that the changes they demanded would be implemented. To date, the record of passage of these reform measures has been mixed. In testimony before the Senate Foreign Relations Committee in October 2015, Assistant Secretary of State Victoria Nuland stated that the government was setting up an Anti-Corruption Bureau that would investigate corruption among government officials and that new anti-corruption laws passed in 2014, including stricter provisions against bribery and conflicts of interest, would require annual disclosures of income by public officials. She noted that, “[w]ith U.S., EU, and UK help, new local prosecutors are being hired, old ones are tested and retrained, and all will now submit to periodic performance evaluations to root out corruption and malfeasance.”³

On the other hand, some reforms have been slow to be implemented. According to Secretary Nuland, “much difficult work remains to clean up endemic corruption throughout government and society, at every level; to stabilize the economy; break the hold of corrupt state enterprises and oligarchs; and reform the justice system.” She also noted that, at the time, only 5% of the Ukrainian population completely trusted the judiciary. Secretary Nuland stated, “like Ukraine’s police force, the Prosecutor General’s Office (PGO) has to be reinvented as an institution that serves the citizens of Ukraine, rather than ripping them off.” For the Secretary, that meant the PGO “must investigate and successfully prosecute corruption and asset recovery cases—including locking up dirty personnel in the PGO itself.” She added that the newly created Inspector General’s Office within Ukraine’s prosecution service must be able “to work independently and effectively, without political or judicial interference.”⁴ Nuland’s comments were given renewed importance when, on February 14, 2016, the reform-minded deputy prosecutor resigned, complaining that his efforts to address government corruption had been consistently stymied by his own prosecutor general, Viktor Shokin, as well as other government officials. This led to the February 16 resignation of Shokin after President Poroshenko complained that Shokin was taking too long to clean up corruption even within the PGO itself.

Others have also observed that it has been very difficult to keep reform progress moving forward. According to the Economist Intelligence Unit (EIU), “dismantling ingrained structures of corruption will continue to meet with considerable resistance from organized business-political-criminal networks, including some that are still influential in the pro-Western government.”⁵ In a return appearance before the Senate Foreign Relations Committee in March 2016, Assistant Secretary Nuland appeared to echo this sentiment when she stated,

Ukraine’s European future is put at risk as much by enemies within as by external forces. The oligarchs and kleptocrats who controlled Ukraine for decades know their business model will be broken if Maidan reformers succeed in 2016. They are fighting back with a vengeance, using all the levers of the old system: their control of the media, state owned

³ Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

⁴ Ibid.

⁵ Economist Intelligence Unit, *Country Report on Ukraine*, January 18, 2016.

enterprises, Rada deputies, the courts and the political machinery, while holding old loyalties and threats over the heads of decision-makers to block change.⁶

The difficulties some reformers in the government were experiencing in moving the process forward was reflected in the resignation in early February 2016 of the economy minister, Abromavicius, who complained of political interference from advisers to the president and members of the Rada and accused some political elites of systematically blocking much-needed reforms and interfering in the fight against corruption.⁷ U.S. Ambassador Pyatt, along with several other European ambassadors, praised Abromavicius for his efforts and expressed disappointment with the resignation.⁸ The International Monetary Fund (IMF), which had postponed the late 2015 delivery of the third and fourth installments of funds for Ukraine because of the slow pace of reform, including the lack of tax reform, further delayed the payment after the Abromavicius resignation.

There were other signs of potential trouble ahead for the governing coalition. In August 2015, the first reading of a controversial constitutional amendment on administrative decentralization for the Donbas region (required by the Minsk-2 agreement, see below) was passed by the Rada, but not with the 300 votes necessary to amend the constitution. According to some, the debate opened up serious splits within the governing coalition.⁹ Tensions inside the Rada likely made it difficult for the decentralization law to be included in the constitution. President Poroshenko found himself in the middle of a struggle between those, including the EU and United States, that wanted to move forward toward a settlement of the conflict in the east at all costs and those more hard-line elements in the country that did not want to make any further concessions to Russia or the separatists until they took significant steps to end the conflict and moved to help reunify Ukraine.

In September 2015, the first rupture of unity in the government took place when the Radical Party quit the governing coalition over the decentralization issue. In January 2016, the leadership of the Self-Reliance Party called for a no-confidence vote against Prime Minister Yatsenyuk, threatening to leave the coalition if the vote was not held. The same day, parliament chairman Volodymyr Groysman announced that beginning on February 16, 2016, the legislature would conduct a review of the cabinet's work, which would precede a vote of no confidence on the Yatsenyuk government. At that point, questions arose as to whether Prime Minister Yatsenyuk could retain his position as his detractors began to accuse him of treating with deference some of the wealthy oligarchs whom Yatsenyuk vowed to reform. Some believed that changes would have to be made in the government to retain any semblance of stability.¹⁰

On February 15, President Poroshenko asked for Yatsenyuk's resignation over the slow pace of reform and because he felt the prime minister no longer enjoyed the support of the government coalition or the Rada. Yatsenyuk refused to resign and took his case to the Rada. On February 16, Yatsenyuk barely survived a vote of no confidence in the Rada when only 194 members of parliament voted against him. The outcome of the vote further complicated the political environment because although Poroshenko argued that change was necessary to reassure the

⁶ Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Ukraine Reforms Two Years After the Maidan Revolution and Russian Invasion*, hearings, 114th Cong., 1st sess., March 15, 2016.

⁷ "Resignation of Reformist Minister Sheds Light on Rampant Corruption," EURAtive.com, February 3, 2016.

⁸ Ibid.

⁹ Op. cit.

¹⁰ "Ukraine: What Happens in the East Starts in Kiev," Stratfor, February 4, 2016.

public, a majority in the Rada, including many in Poroshenko's own political bloc, refused to support the ouster of Yatsenyuk. After the vote, Yatsenyuk noted that while he would not step down, he would consider replacing some of his cabinet. The number of votes against Prime Minister Yatsenyuk and the fact that Poroshenko called for his resignation created doubts within the government and among the population regarding Yatsenyuk's future effectiveness.

Following the "no-confidence" vote, the Fatherland Party quit the coalition on February 17, 2016. The next day, February 18, the Self-Reliance Party, expressing its frustration with the reform effort, also pulled out of the coalition. The loss of both parties left the Poroshenko/Yatsenyuk government with only 215 votes in the Rada, 11 votes short of a majority. However, Ukrainian law prohibits the Rada from considering additional no-confidence votes for six months, so Yatsenyuk was given time to make changes and move the reform process forward, if possible. Observers believed that although the government had been weakened, all three former coalition partners, despite seeking a new government, likely would have continued to support the government's reform agenda and provide the votes needed to pass such legislation. Despite this assessment, neither a new coalition government led by Yatsenyuk nor a new prime minister had materialized by late March 2016. Speculation became centered on Volodymyr Groysman as a replacement for Yatsenyuk, but Yatsenyuk refused to resign until a new governing coalition was agreed to. This stalemate led to typical Ukrainian political maneuverings among the parties.

The United States and the EU, despite their concerns over the pace of reform, did not want the government to collapse and supported the formation of a new coalition, even without Yatsenyuk. Failure to form a new government would require new national elections. The idea of new elections, which could have generated nationwide political and economic instability, weakened the parties of both Poroshenko and Yatsenyuk, and further slowed reform, appeared not to be a viable option. In addition, new elections would call into question the ability of a new government to be any more dedicated to reform or successful in achieving such reforms.

For some Ukraine observers, the recent shift among the various political leaders triggered fear among reformers that Ukraine might repeat the failure of the earlier Orange Revolution, the leaders of which, Prime Minister Yulia Tymoshenko and President Victor Yushchenko, quarreled bitterly after attaining power. Their mutual hostility paralyzed the government, alienated voters, and delivered the presidency to Victor Yanukovich in 2010.¹¹ For these observers, history seemed about to repeat itself.

The political turmoil surrounding the Yatsenyuk government was not, however, all bad news. As noted above, U.S. Secretary Nuland, again testifying before the Senate Foreign Relations Committee, said,

Here's the good news: since I last testified before this Committee five months ago, Ukraine has largely stabilized its currency and is rebuilding its reserves; seen some modest growth in the economy; passed its first winter without relying on gas from Gazprom; approved a 2016 budget in line with IMF requirements; passed civil service reform to create competition and transparency; recruited a new corporate board for Naftogaz; broke its own record for greatest wheat exports; stood up an independent Anti-Corruption Bureau and Special Prosecutor; and, begun to decentralize power and budget authority to local communities to improve services and policing for citizens. The very week in February that the current government survived a no-confidence vote, Rada deputies also approved five critical pieces of reform legislation to stay on track with IMF conditions and advance Ukraine's bid for visa-free travel with the EU, including laws on: Privatization of state owned enterprises; Improvements in corporate governance of state

¹¹ Elizabeth Pond, "Gunfight at the Ukraine Corral," Institute for International Strategic Studies, February 4, 2016.

owned enterprises; Asset seizure and recovery; The appointment process for anti-corruption prosecutors; and, mandatory asset disclosure for public officials.¹²

Despite the recognized progress made in some areas of reform, opinion polls indicated that public skepticism remained high regarding the Poroshenko/Yatsenyuk government's commitment to make a serious impact in fighting the country's deeply ingrained, crippling problem with corruption and to adopt other legislation seen as necessary to move Ukraine forward. As evidence of what appeared to be a growing trend of disenchantment, some pointed to the October 2015 local elections held throughout the country, in which Yatsenyuk's People's Front party did not even participate because polls indicated that the party had experienced a significant decline in support in some regions of the country. In a public opinion poll conducted in November 2015 for the International Republican Institute, only 27% of those polled expressed a favorable view toward President Poroshenko, and only 12% looked favorably on Prime Minister Yatsenyuk.¹³

Although Yatsenyuk initially survived the political uprising, a new level of disenchantment on the part of an already skeptical public as well as among some within the Rada who felt Yatsenyuk no longer held a mandate for governing made it unclear just how much success in addressing corruption Yatsenyuk, or a successor, could achieve and how much trouble was in store for Poroshenko.

When Yatsenyuk failed to form a new government by early April, he indicated that he would resign, but only if a new prime minister was agreed to. On April 14, 2016, the Rada, by a very slim margin (257 votes out of a possible 450), approved Volodymyr Groysman, the Speaker of the Rada and a close associate of President Poroshenko, as the new prime minister. Groysman had to rely largely on the Petro Poroshenko Bloc and Yatsenyuk's People's Front, along with a few independents and lawmakers from oligarch-linked parties to confirm his new position. Former coalition parties, including Fatherland, Self Help, and the Radical Party, all of which had left the ruling coalition for the opposition, opposed Groysman, all for different reasons.

Groysman's coalition starts out in a weakened state, with serious doubts about his ability to move the agenda forward in the very Rada he recently led. In addition, Groysman's close association with Poroshenko has raised some doubts about his determination or ability to effectively carry out major reforms on which Poroshenko himself may be lukewarm.

These initial concerns were noted by many, including the *Washington Post*, which wrote,

Mr. Poroshenko and his new prime minister talked a good game as Mr. Groysman presented his cabinet to parliament last week. They said they were committed to continuing an International Monetary Fund program that is keeping Ukraine financially afloat, to fighting corruption and to rejecting the economic populism proposed by many in parliament. But neither man has a record of supporting the radical steps Ukraine needs, including a sweeping reform of the judiciary, big increases in energy prices for consumers, and an uncompromising assault on corrupt oligarchs and vested interests.¹⁴

Further, a series of first moves by Groysman to fill his Cabinet raised some additional concerns. For instance, Groysman replaced the popular finance minister, Natalie Jaresko, and appointed Oleksandr Danyliuk, former senior consultant at McKinsey & Company, in her place. He also

¹² Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Ukraine Reforms Two Years After the Maidan Revolution and Russian Invasion*, hearings, 114th Cong., 1st sess., March 15, 2016.

¹³ Public opinion survey of residents of Ukraine conducted between November 19, 2015, and November 30, 2015, by the Rating Group of Ukraine for the International Republican Institute.

¹⁴ "Ukraine's President consolidates his control," *Washington Post*, April 16, 2016.

failed to announce a new prosecutor general, who is needed to move forward with anti-corruption reform. In a phone conversation with the new prime minister, U.S. Vice President Joseph Biden congratulated Prime Minister Groysman on his election and on the new Cabinet. The Vice President stressed that, to maintain international support for Ukraine, the new team should move forward quickly on Ukraine's reform program, including fulfilling its IMF commitments, as well as on Minsk implementation and the confirmation of a new, reformist prosecutor general.¹⁵

Current Economic Situation

After Russia proper, the Ukrainian republic was the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile soil generated more than one-fourth of Soviet agricultural output.¹⁶ (According to the U.S. Department of State, this remains the case as Ukraine exported a record 33.5 million tons of grain in 2014.)¹⁷ In addition, Ukraine's diversified heavy industry, concentrated in the eastern portion of the country, supplied equipment and raw materials to industrial facilities and mining sites within Ukraine and Russia.

Although its economy was in decline in 2013, some believe Ukraine's primary economic challenges are not all self-inflicted. Many are the result of Russia's aggressive actions against Ukraine. Russia's annexation of Crimea in March 2014 seized 4% of Ukraine's GDP. Subsequently, Russia's support for separatists in eastern Ukraine, a region that accounted for 10% of the country's GDP in 2013, resulted in the region's production plummeting by 70%, costing Ukraine some 7% of its 2013 GDP.

Since 2013, Russian trade sanctions have slashed Ukraine's exports to Russia by 70%—accounting for a drop of 18% in Ukraine's total exports. Last year alone, Ukraine's exports to Russia—which included machinery, steel, agricultural goods, and chemicals—fell by half. Logistical issues, the lack of commercial links, and the specialization of some products meant that Ukrainian goods could not be redirected in the short term away from the Russian market to other markets, particularly in Europe. It is estimated that the loss of the Russia market likely resulted in a 6% decline in Ukraine's GDP. In addition, with Russia's aggression in Ukraine still unsettled, few want to invest in what could become an extended war zone. As a consequence, Ukraine's net foreign direct investment, which was slightly over 3% of GDP before the start of hostilities, has evaporated.¹⁸

Since 2014, some good news has been noted. According to the Economist Intelligence Unit's (EIU's) most recent assessment,¹⁹ during 2015 signs of financial and economic stabilization began to appear as a result of a series of measures, including a new \$17.5-billion program loan approved by the IMF in March 2015 and a steep rise in interest rates that helped to support the *hryvnya* (Ukraine's currency). In August 2015, the government announced that a deal on the restructuring of up to \$18 billion of Ukraine's public debt had been reached with private creditors. In December 2015, the IMF tweaked its rules regarding lending to countries in arrears to other

¹⁵ White House, "Readout of Vice President Biden's Call with Prime Minister Volodymyr Groysman," press release, April 14, 2016, at <https://www.whitehouse.gov/the-press-office/2016/04/14/readout-vice-president-bidens-call-prime-minister-volodymyr-groysman>.

¹⁶ CIA, *The World Factbook*, January 5, 2016.

¹⁷ Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

¹⁸ Anders Aslund, "Russia's War on Ukraine's Economy," July 9, 2015.

¹⁹ Economist Intelligence Unit, *Country Report on Ukraine*, January 18, 2016.

states, allowing Ukraine to continue to receive IMF funding even though the government has thus far refused to repay a \$3 billion bond, issued by the previous government and held by Russia.

In December 2015, the Rada adopted a 2016 budget that included some changes to the tax code but did not go as far as the finance minister had wanted. The approved budget would attempt to reduce the budget deficit target to 3.7% of GDP, down slightly from the 2015 target of 4.3% of GDP. According to the EIU, this target is in line with the government's commitments made as part of its April 2014 IMF loan of \$17 billion. Passage of the budget would have allowed the IMF to continue to lend money to Ukraine as long as other reforms continued. Other commitments made to the IMF included maintaining a flexible currency exchange rate and increasing household gas prices to 56% of the import price and heating prices to about 40% of the import price in 2014. The IMF also wanted a commitment to make rapid progress on reforms, including further energy price increases, bank restructuring, governance reforms of state-owned enterprises, and legal changes to implement anti-corruption and judicial reforms.²⁰ In February 2016, with little progress on the IMF's demands, IMF Director Lagarde warned Prime Minister Yatsenyuk that reforms were taking too long and that continued IMF support for Ukraine was in jeopardy unless the pace of reforms was increased.

The budget debate in the Rada was difficult, as many parliamentarians noted that the fiscal austerity focus of the budget, the ongoing conflict in the east, and recession all contributed to a downturn in living standards, which in turn contributed to a rapid decline in public support for the government.

In late December 2015, the central bank of Poland announced that it would establish a *zloty/hryvnya* currency swap line with the National Bank of Ukraine. The main purpose of the initiative was to strengthen Ukraine's financial system, stabilizing the *hryvnya* and promoting an increase in bilateral trade between the two countries.

As noted above, when the free-trade agreement with the EU went into effect in January 2016, Russia suspended its own free-trade deal with Ukraine and banned imports of Ukrainian food—to which Ukraine has responded in kind. In the short term, any positive impact of the EU free-trade deal could be offset by Russia's countermeasures. In 2016, the EIU expects a weak economic recovery, owing to the effect of Russia's trade bans and still high domestic political risk, which could dampen the recovery. The EIU forecasts a growth of around 1% in 2016.²¹ On January 25, 2016, the Ukrainian Central Bank issued its own revised forecast, estimating that growth would only reach 1.1% in 2016.

Energy Issues

Energy has long been an important factor in Ukraine's relations with Russia and a key to the success of Ukraine's economic reforms.²² Ukraine has historically been heavily dependent on Russia for its energy supplies. In 2012, 63% of Ukraine's natural gas consumption came from Russia, as well as nearly three-quarters of its oil and other liquid fuels.²³ However, Ukraine's vulnerability to Russian pressure has been mitigated by the fact that the main oil and natural gas pipelines to Central and Western Europe transit its territory. In 2014, about 40% of Russian

²⁰ See IMF, "Statement by IMF Managing Director Christine Lagarde on Ukraine," press release, February 12, 2015, at <https://www.imf.org/external/np/sec/pr/2015/pr1550.htm>.

²¹ Op. cit.

²² Anders Aslund, "Securing Ukraine's Energy Sector," Atlantic Council, April 2016.

²³ U.S. Energy Information Agency, Country Brief: Ukraine, <http://www.eia.gov/todayinenergy/detail.cfm?id=15411>.

natural gas destined for Europe transited Ukraine. Past Russian efforts to greatly increase gas prices for Ukraine provoked a crisis that resulted in a cutoff of Russian gas to Western Europe for several days in January 2006. A second gas crisis occurred in January 2009, resulting in a gas cutoff of nearly three weeks.

Until recently, Russia had long sought control of Ukraine's natural gas pipelines and storage facilities. Moscow's efforts were unsuccessful, even with friendly governments in Kyiv, due to Kyiv's refusal to cede control of one of its key economic assets. In recent years, Russia, in an attempt to pressure Ukraine over the pipelines, negotiated with several European countries to build pipelines that would bypass Ukraine. Gazprom (Russia's state-controlled energy company), having reached an agreement with Germany, constructed a gas pipeline under the Baltic Sea (called Nord Stream). Moscow had also proposed a pipeline through the Balkans (called South Stream) to Western Europe. However, annoyed by EU objections that the project, as planned, violated EU rules, Russia cancelled the South Stream project in December 2014. Russia then announced that beginning in 2019, it would no longer ship gas to Europe through Ukraine and would build a pipeline through Turkey to the Greek border (dubbed Turkish Stream).

Russia has also used gas prices as a tool in its policies toward Ukraine. Russia had raised the natural gas price for Ukraine from \$268 per thousand cubic meters (tcm) while President Yanukovych was in power to \$485 per tcm of gas when Ukraine's new government took power, an increase of about 80%. Ukraine refused to pay the increased amount and demanded a new gas contract with a lower price. Russia responded in June 2014 by cutting off natural gas supplies to Ukraine for non-payment of debts. (Ukraine continued to allow gas destined for Western Europe to transit its territory.) In October 2014, the EU brokered a deal between Gazprom and Ukraine on gas supplies at a lower price through March 2015 in exchange for Ukraine's repayment of some of its debts to Gazprom. That agreement was further extended to the end of 2015.

Ukrainian leaders acknowledge that in order to avoid likely future Russian efforts to use energy supplies as a political weapon, Ukraine would have to sharply reduce its overall energy consumption, which was driven by low energy prices, and its dependence on Russian gas. In 2015, Ukraine began to import more significant amounts of gas from Poland, Hungary, and Slovakia by reconfiguring the pipelines to "reverse flow" supplies.

By November 2015, buoyed by lower energy consumption due to the economic slowdown in Ukraine, greater availability of gas from EU countries, increases in the price of gas to its consumers, and the fact that the government no longer had to supply the energy-consuming region of the Donbas, the Ukrainian government ordered Naftogaz, the state-run gas monopoly, to cease buying gas from Russia. The Ukrainian government's decision to stop buying gas from Gazprom is part of a broader trend toward the dismantling of bilateral Russia-Ukraine economic ties. However, according to the EIU, Ukraine is currently only able to do without Russian gas because a deep economic contraction has reduced demand.²⁴

In the long term, some believe Ukraine could develop its own hydrocarbon reserves—including shale gas deposits—and improve exploitation of its conventional gas reserves; import liquefied natural gas; implement a new gas market law; and import gas from Azerbaijan, Central Asia, and elsewhere via pipelines through the EU's planned Southern Energy Corridor. Ukraine will also have to make much greater strides in energy conservation, which has required a steep and politically unpopular hike in natural gas prices, including for households. According to some, the

²⁴ Economist Intelligence Unit, *Country Report on Ukraine*, December 2015.

modest gas price increases implemented in 2015 resulted in a 20% reduction in gas consumption in 2015 and such consumption reductions could continue in 2016.²⁵

Foreign Policy

Given the significant domestic problems facing the Poroshenko government, the scope of Ukraine's foreign policy is focused on a few main foreign policy priorities. These include securing continued international support for Ukraine's sovereignty and territorial integrity, including nonrecognition of Russia's annexation of Crimea; reorienting its economy as quickly as possible toward Europe; and seeking continued international assistance to ameliorate the country's dire economic situation.

In December 2014, the Ukrainian parliament overwhelmingly renounced Ukraine's former neutral, "non-bloc" status and indicated a preference for closer relations with NATO. After taking office, President Poroshenko requested assistance from NATO for its military. At the September 2014 NATO summit in Wales, the alliance agreed to set up four trust funds to help Ukraine's military in such areas as logistics, command and control, military personnel issues (including wounded soldiers), and cyberdefense.²⁶

Relations with the European Union

Ukraine has been a priority country within the EU's Neighborhood Policy and the Eastern Partnership for several years. The EU policy is intended to forge a close relationship that encompasses political association and economic integration that could prepare Ukraine for eventual membership in the union. The desire by at least some segments of the Ukrainian public for stronger relations with the EU and the West fueled the initial protests in late 2013 that culminated in the collapse of the former Yanukovych regime.

In response to the crisis in Ukraine, in March 2014, the European Commission unveiled an initial support package of €11 billion (about \$15.5 billion) focusing on the comprehensive reform process initiated by the new government in Ukraine. The package included €1.6 billion (about \$2.2 billion) in macro-financial assistance loans to support Ukraine's government finances. The EU also agreed to provide some €1.5 billion (about \$2.17 billion) in grant aid between 2014 and 2020 to assist Ukraine's reform efforts. The package includes up to €9 billion (about \$11.16 billion) in loans from the European Investment Bank and the European Bank for Reconstruction and Development. The package also included close to €110 million (approximately \$112.5 million) aimed at developing the private sector, including small and medium enterprises.

The European Union's main instrument to promote European values (such as human rights, fundamental freedoms, rule of law, political dialogue, and reform) and deepen economic ties with Ukraine is the association agreement (AA). The AA includes a free trade agreement with the EU, formally known as a deep and comprehensive free trade agreement (DCFTA). Although the DCFTA further opens potentially lucrative EU markets to Ukraine, it also requires Ukraine to adopt EU legislation and standards and to gradually expose Ukrainian firms to tough competition

²⁵ Aslund, "Securing Ukraine's Energy Sector,"

²⁶ For more on NATO's response to the Ukraine crisis, see CRS Report R43478, *NATO: Response to the Crisis in Ukraine and Security Concerns in Central and Eastern Europe*, coordinated by Paul Belkin. See also http://www.nato.int/cps/en/natohq/news_112695.htm.

from EU imports. Approximation to EU norms could also lead to increased foreign investment in Ukraine.

The EU and Ukraine signed the parts of Ukraine's association agreement dealing with political issues in March 2014, and the parts dealing with economic issues (including the DCFTA) were signed on June 27. Ratification of the pact was delayed due to Russian threats to block Ukrainian imports from its markets unless the pact was modified to protect Russia's interests. The EU and Ukraine refused to do so, and the European Parliament and the Ukrainian parliament ratified the accord on September 16, 2014. Moscow responded by closing off the import of selected Ukrainian products. However, the EU and Ukraine did appear to bow to Russian threats by agreeing to postpone implementation of the DCFTA until 2016. In the interim, Ukraine was granted unilateral trade preferences from the EU.

The association agreement with the EU came into effect on January 1, 2016, with the promise of a gradual improvement in the Ukrainian economy once the trade relationship begins to take hold and matures. As expected, as soon as the agreement went into force, Russia suspended its own long-standing free-trade deal with Ukraine and banned imports of Ukrainian food.

In addition to the aid package and the association agreement, the EU established a High Level Investment Forum/Task Force and created a dedicated Ukraine Support Group, composed of experts from EU institutions and member states in different sectors, to provide advice and support to the Ukrainian authorities in the mentioned reform sectors.²⁷ The EU also committed to help modernize Ukraine's natural gas transit system and to work on reversing the flow of pipelines through Slovakia so that Ukraine can receive gas from the west. Finally, the EU agreed to accelerate its Visa Liberalization Action Plan to allow Ukrainians to travel throughout the EU.

Relations with Russia

Ukraine was the center of the first eastern Slavic state, Kyivan Rus, which during the 10th and 11th centuries had become one of largest and most powerful states in Europe. Kyivan Rus was eventually incorporated into the Grand Duchy of Lithuania and subsequently into the Polish-Lithuanian Commonwealth. During the latter part of the 18th century, most Ukrainian territory was absorbed by the Russian Empire. Following the collapse of czarist Russia in 1917, Ukraine achieved a short-lived period of independence (1917-1920), but was reconquered and endured Soviet rule until Ukraine achieved independence in 1991 following the dissolution of the Soviet Union. Although independent, Russian political and economic influence over Ukraine remained strong, with Moscow determined to ensure that despite any changes in the government in Kyiv, Ukraine would remain on good terms with Russia.

In some ways, recent Russian perspectives on Ukraine are seen as the culmination of long-standing Russian resentment of the outcome of the Cold War. In 2005, Russian President Vladimir Putin called the collapse of the Soviet Union "a major geopolitical disaster." Russian leaders have also asserted that nations in the post-Soviet region should remain of privileged interest to Russia. Part of the justification for that assertion is an alleged right to protect Russian citizens and "compatriots" (persons deemed to be linked to Russia by language, culture, or ethnicity).

Moreover, Ukraine has a particularly important place in Russian psychology, according to many experts. Putin has referred to Ukrainians as "brothers" of the Russian people. Eastern Orthodox

²⁷ See http://europa.eu/rapid/press-release_MEMO-14-159_en.htm.

civilization, in which Russians see themselves as the leading force, got its start in Kyvin Rus when Prince Vladimir converted to Christianity in AD 988. Russians often point out that their ancestors spilled a great deal of blood to incorporate Crimea and most of the rest of Ukraine into the Russian Empire, and a great deal more to keep it within the empire (and its successor, the Soviet Union) through several wars.

Ethnic Russians make up around 17% of Ukraine's population, according to the 2001 census. They are concentrated in the southern and eastern parts of the country. They make up approximately 58% of the population in the Crimea. In addition, many ethnic Ukrainians in the east and south also tend to be Russian-speaking, are suspicious of Ukrainian nationalism, and have supported close ties with Russia. Soviet leaders concentrated important heavy industries (including defense industries) in eastern Ukraine, which tied the region to Russia economically and fostered what many analysts have viewed as a lingering Soviet-style mindset there. This is particularly true of the Donbas region, on the border with Russia.

Until the collapse of the Yanukovych regime in February 2014, Putin preferred using indirect methods of influence in Ukraine. These included "carrots," such as lucrative business deals with Ukrainian politicians and oligarchs, but also "sticks," such as de facto economic sanctions and using Russian media (which was and is still popular in Ukraine) to attack uncooperative leaders.

Russia reacted with great hostility to the emergence of a new, more pro-Western leadership in Ukraine in February 2014 by seizing Ukraine's Crimean peninsula. Starting on February 27, heavily armed Russian-speaking troops poured into Crimea, seizing airports and other key installations throughout the peninsula. At the time, Russian President Vladimir Putin claimed that the troops were not Russian Federation military forces, but only local Crimean self-defense forces. On March 16, the Crimean authorities held a referendum on Crimea's annexation to Russia. According to Crimean officials, Crimea's union with Russia was allegedly approved by 96% of those voting, with a turnout of 83%. Ukraine, the United States, the European Union, and other countries denounced the referendum as illegal and not held in a free or fair manner. Russian President Vladimir Putin signed a "treaty" with Crimean leaders on March 18, 2014, formally incorporating Crimea into Russia. In April 2014, Putin suggested that Russian Federation military forces did in fact invade Crimea.

Since then, the Crimea front has been relatively stable as the reality of its return to Ukraine continues to fade. Recently, however, an incident involving a disruption in the supply of electricity from Ukraine to Crimea resulted in recriminations and accusations of sabotage and a discontinuation of trade between Ukraine and the peninsula. In addition, two reported cyberattacks on Ukraine's electricity grid and its airport computer system have been attributed to hackers inside Russia.

Conflict in Eastern Ukraine

In addition to Russia's annexation of Crimea, in March 2014, thousands of pro-Russian protestors began organized demonstrations in eastern Ukraine, especially in the major cities of Donetsk and Luhansk in the Donbas region and in Kharkiv. Some demonstrators favored union with Russia; others sought only greater autonomy from the government in Kyiv. Demonstrators seized government buildings. They also faced off against pro-Maidan demonstrators. Unrest in eastern Ukraine took an even more ominous turn in April 2014, when armed men stormed and occupied key government buildings and broadcast facilities in Donetsk and Luhansk, as well as in

Sloviansk and more than a dozen other towns in the Donbas region.²⁸ The government in Kyiv responded with military force and employed local militias to help push back the separatists.

The Ukrainian government said Russian intelligence agents orchestrated the separatists' attacks and released video, photographs, and audio recordings allegedly identifying them. Senior U.S. officials and NATO Supreme Allied Commander General Philip Breedlove stated that they believed Russia had played a leading role in the activities of the armed separatist groups in eastern Ukraine by providing arms, troops, and material support.

On May 11, 2014, the leaders of the armed separatist forces of the so-called Donetsk People's Republic (DNR) and the Luhansk People's Republic (LNR) held "referendums" on their "sovereignty." According to the organizers, the question of independence from Ukraine was approved by 89% of those voting in Donetsk region and by 96% in Luhansk region, with a turnout of 75%. No international observers monitored the vote, and witnesses reported rampant irregularities. The Ukrainian government denounced the referendums as illegal.

Figure 2. Separatists Areas in Ukraine



Sources: Map created by CRS. Map information generated by Hannah Fischer using data from the National Geospatial Intelligence Agency (2016), Department of State (2015), Esri (2014), and DeLorme (2014).

²⁸ The Donbas region refers to area comprised of the Donetsk and Luhansk Provinces.

After a brief unilateral cease-fire by Ukraine in late June failed to lead to progress on a peace plan put forward by newly elected Ukrainian President Poroshenko, Ukraine restarted an “anti-terrorist operation” against the separatist forces. In July and August 2014, Ukraine successfully dislodged the gunmen from strongholds in Slovyansk, Kramatorsk, and other towns, and began to move on separatist forces in the key cities of Donetsk and Luhansk. It was during this time that the tragedy of Malaysian Airlines Flight 17 occurred. The plane, which was flying over Ukraine, was downed by a surface-launched missile on July 17, 2014. Accusations flew on both sides as to who fired the missile, but for some it was clear—and later determined by the Dutch government after a lengthy investigation—that the missile was fired by the separatist forces using a Russian-supplied Buk missile.²⁹

In late August and early September, Russia stepped up its support to the separatists, including by deploying thousands of Russian troops to fight in Ukraine (a contention that Russia still denies despite overwhelming evidence to the contrary).³⁰ Although mostly denied by Moscow, Russian troops and the separatists were apparently supplied with tanks, armored personnel carriers, artillery, surface-to-air missiles, and other military equipment from Russia. As a result, Ukrainian forces lost ground and suffered heavy casualties.

Perhaps fearing further casualties and the loss of more territory, Ukraine agreed to a cease-fire plan during talks with separatist representatives and Russian officials in Minsk, Belarus, on September 5, 2014. Among other provisions, the plan (Minsk-1) called for a cease-fire along the then-current lines of control, an exchange of hostages and/or prisoners, the monitoring of the cease-fire and of the Russian-Ukrainian border by the Organization for Security and Cooperation in Europe (OSCE), and the withdrawal of “illegal armed groups, militants, as well as militants and mercenaries from the territory of Ukraine.” The Minsk-1 agreement also called for Ukraine to adopt a law on amnesty for those involved in the war in the Donbas and other provisions.

The signing of the agreement led to the end of the Russian-supported offensive on Ukrainian forces but did not fully end the fighting. Nor were any of the points of the Minsk-1 protocol fully implemented. Sporadic, sometimes intense, fighting continued, resulting in over 1,300 deaths since the Minsk protocol was signed, and Ukrainian officials indicated that the separatists had seized over 500 square kilometers of Ukrainian territory since the protocol’s signature. In January 2015, President Poroshenko said Russia had 9,000 troops inside Ukraine, along with hundreds of tanks, armored fighting vehicles, and artillery pieces.³¹

In response to the Russian annexation of Crimea and the conflict in the Donbas region, both the United States and the European Union initiated a series of sanctions and travel bans against those Russian and Ukrainian personnel who were identified as being part of the destabilization of Ukraine (see below). Both the United States and the EU made the full implementation of the Minsk protocol a precondition for easing sanctions on Russia.

A particularly violent flare-up of attacks by the pro-Russian separatists against Ukrainian-held territory in late January 2014 and early February 2015 led the United States and the EU to warn Russia that it faced possible additional sanctions for its military intervention in Ukraine.

²⁹ “MH17 Ukraine Disaster: Dutch Safety Board Blames Missile,” BBC News, October 15, 2015.

³⁰ For an unofficial translation of the Russian-language original, see, for example, <http://www.ft.com/intl/cms/s/0/21b8f98e-b2a5-11e4-b234-0014afeab7de.html#axzz3RXfwD5VC>.

³¹ Some experts believe Russian troop levels in Ukraine are significantly lower. U.S. Ambassador to NATO Douglas Lute has said Russian troops in Ukraine are mainly intelligence officers serving a command and control function and Russian servicemen operating highly sophisticated, specialized equipment, such as that used for electronic warfare and air defense. See <http://www.reuters.com/article/2015/02/04/us-ukraine-crisis-nato-usa-idUSKBN0L81S220150204>.

While actively engaged with U.S. allies in Europe in seeking a resolution of the crisis, the Obama Administration has, for the most part, left the leading role in negotiating such a settlement to France, Germany, and Ukraine, whose representatives have met with those of Russia and the rebels in the so-called Normandy format, named after the place where the meetings first occurred in 2014. Nevertheless, President Obama and Administration officials have been in regular contact with the main figures in the talks, including President Putin, President Poroshenko, German Chancellor Angela Merkel, and President Francois Hollande of France.

A Second Attempt at a Cease-Fire

Recognizing the failure of the Minsk-1 protocol to end the conflict and begin the process of achieving a political resolution to the Donbas crisis, the presidents of France, Russia, and Ukraine and Chancellor Angela Merkel of Germany met again in Minsk in early February 2015 to try to secure a new agreement to stop the fighting. On February 12, a cease-fire agreement was signed to take effect on February 15. The Minsk-2 agreement entered into force on February 15, 2015 (see box).³²

As most of the terms of the agreement were similar to those of the original Minsk-1 protocol, which failed to secure the peace, some observers expressed skepticism about whether this agreement was any more likely to be implemented than the previous one.

Under Minsk-2, the cease-fire is monitored by the OSCE. The agreement called for local elections in rebel-held regions and, more importantly and controversially to Kyiv, for legal and constitutional reforms to be negotiated with the rebels to give a special “decentralized” status to the region. The elections and reforms were to be implemented before the end of 2015 (now slipped to sometime in 2016). The return of control to Ukraine of its side of the Russia-Ukraine border is conditioned on the implementation of these decentralization reforms.

Some expressed concern that the Minsk-2 agreement amounted to a step toward transforming the occupied parts of Donbas into a new Transnistria³³ and that the main difference between the Minsk-1 agreements and the Minsk-2 agreement was that more conditions had been placed on Ukraine. Another point made by skeptics was the fact that Putin, the architect of the crisis, managed to avoid binding himself through the agreement. In fact, Minsk-2 contains no

Minsk-2

1. Immediate, full bilateral cease-fire as of February 15.
2. Withdrawal of all heavy weapons by both sides, to be completed within 14 days.
3. Effective monitoring regime for the cease-fire and withdrawal of heavy weapons by the OSCE.
4. Launch of dialogue on modalities of local elections in accordance with Ukrainian legislation.
5. Pardon and amnesty of figures involved in the conflict.
6. Release of all hostages and other illegally detained people, based on the “all for all” principle.
7. Safe delivery of humanitarian aid to those in need, based on an international mechanism.
8. Restoration of full social and economic links with affected areas.
9. Full Ukrainian control over its border with Russia throughout the conflict zone.
10. Withdrawal of all foreign armed groups, weapons, and mercenaries from Ukrainian territory.
11. Constitutional reform in Ukraine with decentralization as a key element; a new constitution by the end of 2015.
12. Local elections in Donetsk and Luhansk regions to be held according OSCE standards.

³² For an English-language translation of the Minsk protocol, see <http://www.kyivpost.com/opinion/op-ed/osce-releases-the-12-point-protocol-agreements-reached-between-ukraine-russia-and-separatists-in-minsk-363816.html>. For the Russian-language original, see <http://www.osce.org/ru/home/123258?download=true>.

³³ Transnistria is a strip of eastern Moldova that separated from Moldova and is supported by Moscow, including with some 1,500 Russian military personnel on the ground.

obligations whatsoever for Russia, which is not even mentioned in the agreement. Minsk-2 was not even signed by Putin but by Mikhail Zurabov, Russia's ambassador to Ukraine.³⁴

By the beginning of 2016, little had been accomplished in fully implementing the Minsk-2 provisions despite commitments by both sides to do so. A tenuous cease-fire continues to hold, although sporadic fighting does flare up, initiated mostly from the rebel areas, and Ukrainian soldiers and rebels continue to be killed. Some of the rebels' heavy weapons and military personnel supplied by Russia have been withdrawn from the front lines but have not been removed from Ukraine altogether. And, as noted above, although President Poroshenko won a hard-fought victory in initially moving legislation to grant the increased autonomy for the Donbas called for in the Minsk-2 agreement through the Rada, he does not have the necessary votes to pass this legislation as an amendment to the constitution. He is unlikely to secure those votes unless major progress is made by the other side. On the other hand, the separatists appear to have no intention to ensure free and fair elections in the disputed regions, and Russia seems little inclined to push for a resolution of the conflict. The elections in the Donbas have become a major sticking point in the peace process. Ukraine claims that Russia and the separatists have not honored the steps necessary to move the election process forward, including the provision of security. Because there is no real cease-fire, OSCE observers cannot safely enter the disputed areas to begin preparations. It is unclear whether Ukrainian government officials will be allowed into the region to help set up polling stations, print ballots, or even determine how ballots would be counted and reported. Ukrainian political party candidates are not yet permitted to campaign in the Donbas.

Moscow so far has declined to recognize the Donetsk and Luhansk "People's Republics" as independent countries or to annex them to Russia. However, Russian official statements and the Minsk-2 cease-fire agreement view the separatist regimes as legitimate interlocutors for Kyiv in determining the future of Ukraine. Russia has also made demands on the subject of Ukraine's political future. Russian Foreign Minister Lavrov has called for making Russian the second official language in Ukraine and for constitutional reforms that would confirm Ukraine's neutral status. Moscow also has insisted on the decentralization of Ukraine, under which the various regions would have wide autonomy in the areas of the economy, finance, culture, language, education, and external economic and cultural ties with neighboring countries or regions.

Many experts on Russia have stated that Putin's key objective in Ukraine has been and continues to be to weaken and discredit the pro-Western government in Kyiv and Western policy generally. And, according to some, Moscow's policy in Ukraine's east is starting to look more likely to strengthen the so-called Donetsk and Luhansk People's Republics. For instance, according to the International Crisis Group, after showing little interest in building political institutions in the DNR and LNR or enthusiasm for funding social policies, Moscow has begun in the past four or five months to bankroll pensions, social benefits, and salaries to local officials and the separatist military, suggesting that the measures are increasingly clear signs Moscow has decided to transform the crisis into a frozen conflict.³⁵ At best, the outcome would likely amount to a cease-fire in place, with Russia continuing to control the Russia-Ukraine border, given the unlikelihood of an agreement between Kyiv and the separatists on elections and decentralization. Such an outcome could still provide Moscow with leverage over Kyiv but might not afford the same opportunity to destabilize Ukraine as continuing the war.

³⁴ Anders Aslund, "Minsk-2: President Putin's Tactical Victory," RBC Daily, February 13, 2015.

³⁵ "Russia and the Separatists in Eastern Ukraine," International Crisis Group Briefing No. 79, February 5, 2016.

On the other hand, some observers believe that Putin will eventually create the conditions for an election and reintegration of the Donbas region into the country, not because he is prepared to give up the region but because by reintegrating it and having pro-Russians elected to the Rada, Moscow could gain even more leverage in Kyiv. Russia's proxies could control a certain bloc of votes on key issues. This has raised some concern in Kyiv and has led some to suggest this could only become a politically divisive problem.³⁶

On another note, what has largely disappeared from official Russian rhetoric for now is the concept of "Novorossiya"—that is, expanding the Russian-controlled area to include most of eastern and southern Ukraine, perhaps linking Russian-controlled areas in southern Ukraine with Crimea. This goal may have seemed easily achievable to Putin in mid-2014 when he first used the term. Since then, however, Ukrainian forces have become somewhat more capable, and it may appear to Putin than such an objective would now likely require a massive, and perhaps politically unacceptable, infusion of Russian military forces to realize. There also may be financial considerations in that Russia does not want to incur major new expenses in the current economic environment created by falling oil prices and Western sanctions as well as Russian commitments in Syria. Nevertheless, given Putin's past unpredictability, such a scenario cannot be ruled out.

Russia has taken other steps against Ukraine, including imposing trade sanctions against Ukrainian imports and cutting all gas and coal deliveries to Ukraine. Ukrainian government computer servers have been hit by sophisticated cyberattacks, which some experts suggest may have come from Russia.

Some, particularly in Europe, are pushing the Ukrainian government to move forward with the implementation of Minsk-2 to put pressure on Moscow to forge a settlement. They believe that there are additional financial consequences, created by continued low oil prices and Western sanctions and by Russian commitments in Syria, that Russia does not want to continue to incur in the current economic environment by prolonging the crisis.

However, many observers believe this argument misses the entire point of why Putin seized Crimea and supported the separatists in the first place—the destabilization of Ukraine and the reversal of its Western orientation. For these observers, the EU and U.S. pressure on Ukraine to comply with Minsk-2, something not favored by many Ukrainians, is misplaced, as few believe that either the pro-Russia separatists or the Kremlin have any intention of complying with their parts of the Minsk-2 agreement. These observers contend that Putin is not interested in a solution that would otherwise allow Kyiv to turn its full attention to its Western ambitions.

In an opinion piece written on February 12, 2016, Roman Sohn, a columnist for *Ukrainska Pravda* and a civil society activist, suggested that Minsk-2 was essentially a "farce" and that U.S. and EU leaders pursued it to avoid a larger conflict in Europe "at almost any cost to Ukraine." He also argued that Putin knows "that it is much easier for the West to put pressure on Ukraine to accept bad terms than to forge a consensus [to keep or retain] tougher sanctions on Russia."³⁷ In his article, Mr. Sohn reminded the reader that while President Putin has not insisted that the separatists comply with one single point in the Minsk agreement, blaming Kyiv instead for not living up to its commitments, the EU is piling pressure on Ukraine to fulfill its part of the Minsk agreement by devolving more power to the Russia-occupied part of Ukraine.³⁸

³⁶ "Why Reintegrating the Donbas is Suicide for Ukraine," Alexander Motyl, *World Affairs*, February 25, 2016.

³⁷ "Minsk-2: The big farce of Western policy on Russia," EURActive.com, February 12, 2016.

³⁸ Ibid.

This pressure seemed to be on full display when the foreign ministers of France and Germany met with President Poroshenko in February. While praising some of the reforms already implemented to address corruption and the economy, they reiterated their desire to see enacted constitutional reforms aimed at the Donbas region.³⁹ Similarly, Denmark's foreign minister, Kristin Jensen, suggested on February 5 that Ukraine had to uphold its part of the Minsk agreement or risk collapse of support for EU sanctions against Russia.⁴⁰

These “suggestions” (threats for some) from some Europeans have led others to question the motivations of the Europeans. For some, the pressure on Kyiv to meet the Minsk-2 requirements, including amending the Ukrainian constitution, will permanently reward the separatists, seen by many as mere street thugs with guns, for taking sovereign territory from their own country at the point of a gun and could label those members of the Rada who vote for these measures as national traitors. This approach, in the eyes of some, reinforces resentment of the West and suspicions of Europe’s goals and raises the question of whether Europe’s real priority is quality and lasting political reform or implementation of the Minsk agreement.⁴¹

EU and U.S. Sanctions

The United States and the European Union strongly condemned the Russian military invasion and annexation of Crimea and Russia’s ongoing efforts to destabilize eastern Ukraine as violations of international law. Since 2014, the United States, in coordination with the EU and other countries, has imposed sanctions against Russia in order to increase the costs to Russia of its aggression, with the objective of pressing it to implement a genuine political settlement with Ukraine.

On March 17, 2014, the day after Crimean authorities held a referendum on joining Russia, the European Union imposed a visa ban and an asset freeze on 21 figures from Ukraine and Russia who played roles in Russia’s seizure of Crimea. In March 2014, after President Putin signed an agreement with Crimean leaders incorporating the region into Russia, the EU imposed sanctions on 12 additional Russian figures. By May 2014, the EU had added at least 28 additional names of Russian officials and two companies based in Crimea.

The EU list included some senior government officials and members of the Russian parliament, but also fairly low-level figures directly involved in the Crimea operation and efforts to destabilize Ukraine. In contrast to the United States, the EU has stopped short of sanctioning Putin’s “inner circle” or key firms associated with them.⁴²

For its part, the United States suspended most bilateral cooperation with Russia. On April 2, 2014, the Administration announced that it was suspending several projects planned under the aegis of the U.S.-Russia Bilateral Presidential Commission as well as some law enforcement cooperation activities and planned to use that funding for aid instead to Ukraine. The United States has also placed additional restrictions on defense-related exports to Russia.

³⁹ “France and Germany tell Ukraine ‘time is running out,’” EURActive.com, February 23, 2016.

⁴⁰ “Denmark loses patience with Ukraine over Minsk compliance,” EURActive.com. February 8, 2016.

⁴¹ “Note from Berlin: How to react to Kyiv’s political crisis,” Gustav Gressel, European Council on Foreign Relations, March 2016.

⁴² For the sanctions decision and the initial list of names, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0145&rid=5>. For the March 21 additions, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0151&rid=2>. For the April 28 additions, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0238&rid=1>. For the May 12 additions, see http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.137.01.0009.01.ENG.

In March 2014, the Administration issued an executive order imposing visa bans and asset freezes against persons who “undermine democratic processes and institutions in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the misappropriation of its assets....”⁴³ The Administration then issued two additional executive orders (EO) expanding the scope of the sanctions and announced visa bans and asset freezes against several senior figures from Russia and the secessionist Crimean government. The EOs permit the Administration to freeze the assets of persons working in key areas of the Russian economy, including “financial services, energy, metals and mining, engineering, and defense and related materiel.”

Observers have noted that sanctions have been crafted to reduce the economic harm to EU countries, for example by not targeting the sensitive natural gas sector or the sale of dual-use technologies to civilian firms. Since January 2015, the United States and EU have extended the sanctions on individuals and entities three times. Current key sectoral sanctions are set to expire in July 2016, unless renewed again (for more details on additional sanctions imposed on Russia by the EU and United States, see **Appendix**).

Relations with the United States

The United States established diplomatic relations with Ukraine in 1991, following its independence from the Soviet Union. According to the U.S. Department of State, U.S. policy is centered on strengthening a democratic, prosperous, and secure Ukraine more closely integrated into Europe and Euro-Atlantic structures. The U.S.-Ukraine Charter on Strategic Partnership, established in 2008, highlights the importance of the bilateral relationship and outlines enhanced cooperation in the areas of defense, security, economics and trade, energy security, democracy, and cultural exchanges. The United States has granted Ukraine market economy status, giving Ukraine permanent normal trade relations status. The United States and Ukraine have a bilateral investment treaty. The U.S.-Ukraine Council on Trade and Investment was established under the trade and investment cooperation initiative and works to increase commercial and investment opportunities by identifying and removing impediments to bilateral trade and investment flows.⁴⁴

According to the Office of the U.S. Trade Representative, Ukraine is the 80th-largest trading partner of the United States, with \$2.2 billion in total trade in 2014. U.S. exports to Ukraine include coal, machinery, vehicles, agricultural products, fish and seafood, and aircraft. U.S. imports from Ukraine include iron and steel, inorganic chemicals, oil, aircraft, and agricultural products. U.S. foreign direct investment in Ukraine amounted to \$931 million in 2013 (latest year data are available).

Since the beginning of the crisis in Ukraine in late 2013, the focus of U.S. efforts has been to support Ukraine’s efforts to reform and increase its cooperation and integration with the European Union. The United States, in cooperation with the EU and international financial institutions, is providing financial and technical assistance to Ukraine.

The United States has also provided non-lethal aid to Ukraine’s security sector, including its army, but has declined so far to provide weapons to Ukraine, out of concern of escalating the conflict with Russia and making a political settlement less likely. Nevertheless, President Obama said in February 2015 that providing defensive weapons to Ukraine was an option the

⁴³ See <http://www.whitehouse.gov/the-press-office/2014/03/06/executive-order-blocking-property-certain-persons-contributing-situation>.

⁴⁴ U.S. Department of State, *Country Notes: Ukraine, 2015*.

Administration was continuing to consider if diplomatic efforts fail. In a late 2015 visit to Ukraine, Vice President Biden, while restating U.S. support for Ukraine, warned that the government had a window of opportunity to implement systemic changes to deepen reforms in all aspects of life and at all levels of government but that Ukraine had to seize the moment and press forward and deliver on the promise of the Maidan.⁴⁵

As noted above, U.S. Assistant Secretary for Europe Victoria Nuland has praised Ukraine for its progress thus far but has warned Kyiv that progress must continue. Similarly, in April 2016, Vice President Joseph Biden, while congratulating Prime Minister Groysman on his election, stressed that, in order to maintain international support for Ukraine, the new team should move forward quickly on Ukraine's reform program as well as on Minsk implementation.

U.S. Aid to Ukraine

According to the U.S. Agency for International Development (USAID) "Greenbook" website, the United States obligated over \$4 billion in aid to Ukraine from FY1990 through FY2012.⁴⁶ Since the crisis that began in late 2013, the United States has committed to provide over \$760 million in assistance to Ukraine, in addition to two \$1 billion loan guarantees. U.S. economic and technical advisers advise almost a dozen Ukrainian ministries and localities.⁴⁷

In its FY2017 budget request, the Administration asked for \$192.4 million in Economic Support Funds (ESF) for Ukraine to continue to address corruption, government reform, support for civil society, and other initiatives. The Administration also requested \$15 million in International Narcotics Control and Law Enforcement (INCLE) funding to support justice and law enforcement reform. The request also included \$2.9 million in International Military Education and Training (IMET) funds and \$42 million in Foreign Military Financing (FMF) aid for Ukraine from the Overseas Contingency Operations (OCO) account.⁴⁸

U.S. technical assistance has been aimed at helping Ukraine stabilize its financial sector; carry out reforms in the agricultural sector; improve the business climate; support constitutional reforms; bolster civil society to participate and monitor the reform process; and support independent media.

Assistance is also devoted to helping Ukraine develop laws and regulations to fight corruption, one of Ukraine's biggest challenges. Technical assistance is also being used to improve its energy security, including by enhancing energy efficiency. In addition, the United States provides humanitarian assistance to Ukraine in cooperation with the U.N. High Commissioner for Refugees (UNHCR) and other international organizations to improve Ukraine's ability to assist internally displaced persons (IDP). U.S. aid has been used by Radio Free Europe/Radio Liberty and Voice of America to produce Russian-language news broadcasts that are aired in Ukraine.

In her March 2016 testimony before the Senate, U.S. Assistant Secretary Nuland stated,

Since there can be no reform in Ukraine without security, over \$266 million of our support has been in the security sector, training nearly 1200 soldiers and 750 Ukrainian

⁴⁵ Vice President Biden's meeting with Ukraine President Poroshenko.

⁴⁶ See <https://eads.usaid.gov/gbk/>.

⁴⁷ Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

⁴⁸ Department of State, *Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs, Fiscal Year 2016*, February 2, 2015, at <http://www.state.gov/documents/organization/236395.pdf>.

National Guard personnel and providing: 130 HMMWVs, 150 thermal goggles and 585 night vision devices, over 300 secure radios, 5 Explosive Ordnance Disposal robots, 20 counter-mortar radars, and over 100 up-armored civilian SUVs. In FY16, we plan to train and equip more of Ukraine's border guards, military, and coast guard to help Ukraine secure its border, defend against and deter future attacks, and respond to illicit smuggling.⁴⁹

In February 2015, Lieutenant General Ben Hodges announced that a U.S. Army battalion has been training Ukrainian forces in Poland, including on how to operate against Russian electronic warfare and how to protect themselves from Russian and rebel artillery.

Some critics have claimed that U.S. military aid had been slow to arrive in Ukraine due to bureaucratic impediments. Moreover, some Members of Congress have expressed support for going beyond the non-lethal support given by the United States so far to provide "defensive weapons" such as man-portable anti-tank weapons. Other suggested assistance includes additional non-lethal items, such as secure communications equipment, reconnaissance drones, and radars capable of tracking longer-range heavy artillery, not just mortars.⁵⁰

Congressional Response to Ukraine Crisis

The U.S. Congress has been an active participant in the effort to address the Ukraine crisis. Congress has focused on providing assistance to the Ukrainian government and supporting sanctions against Russia for its occupation of Crimea and its efforts to destabilize Ukraine. As early as January 2014, the Senate passed S.Res. 319. Among other provisions, the resolution urged the United States and the EU to work together to promote a peaceful resolution of the crisis that moves Ukraine toward a future in the Euro-Atlantic community; encouraged all parties to avoid violence and engage in dialogue; and stated that, in the event of further government violence against peaceful protestors, the President and Congress should consider whether to apply targeted sanctions, including visa bans and asset freezes, against individuals responsible for ordering or carrying out the violence. On February 10, 2014, the House passed H.Res. 447 by a vote of 381 to 2. The resolution contained provisions broadly similar to those of S.Res. 319, including raising the possibility of sanctions against Ukrainian leaders if they use violence against protestors.

Congressional Action

In April 2014, President Obama signed into law H.R. 4152, which authorized aid to help Ukraine carry out reforms; provided security assistance to Ukraine and other Central and Eastern European countries; and required the President to impose visa bans and asset seizures against persons in Ukraine and Russia who were responsible for violence or for undermining the peace, security, stability, sovereignty, or territorial integrity of Ukraine. The President also signed S. 2183, a related bill requiring Radio Free Europe-Radio Liberty and Voice of America to increase broadcasting in eastern Ukraine, Crimea, and Moldova.

Several other pieces of legislation were adopted by the House and Senate over the period of the crisis, including urging NATO allies and European Union member states to immediately suspend

⁴⁹ Op. cit.

⁵⁰ For a report by former senior U.S. officials advocating U.S. defensive arms for Ukraine, see http://www.thechicagocouncil.org/sites/default/files/UkraineReport_February2015_FINAL.pdf.

military cooperation with Russia; to adopt visa, financial, trade, and other sanctions on senior Russian and Ukrainian officials and oligarchs complicit in Russia's intervention and interference in Ukraine; requiring the U.S. government to assist Ukraine to recover assets stolen by the previous regime through corruption; to provide accurate information to eastern Ukraine, Crimea, and Moldova in order to counteract inflammatory Russian propaganda; authorizing increased military and economic assistance for Ukraine; and authorizing support for Russian civil society and democracy organizations.

Perhaps the most important piece of legislation passed near the end of the 113th Congress was the Ukrainian Freedom Support Act (P.L. 113-272). In it Congress called on the President to increase the pressure on Russia by targeting Rosoboronexport and Gazprom, and prohibiting Export-Import Bank programs, government procurement contracts, exports of arms and dual-use goods and services, access to property, the U.S. banking system, or entry into the United States. The act also authorized the President to target Russian financial institutions and foreign financial institutions that engaged in Russia's defense and energy sectors. At its signing, the President stated that while he did not intend to make use of the additional authorities, he would continue to work with international allies to respond to developments in Ukraine.

One issue that sparked significant congressional debate was whether the United States should supply defensive weapons to Ukraine. In February 2015, a bipartisan group of 15 Senators sent a letter to President Obama urging him to act on the authorization provided by the Ukrainian Freedom Support Act to supply an "immediate infusion of effective defensive military equipment and financial aid to thwart Putin's naked aggression. Defensive military assistance—such as anti-tank weapons, counter-battery radars, armored Humvees, and increased training—are all critical to ensuring Ukraine has the capabilities to defend its territory and its citizens."⁵¹

Advocates of arming Ukraine stated that sanctions alone were unlikely to stop Russian aggression and that boosting Ukraine's defense capabilities was essential to stop further Russian conquest of Ukrainian territory and to pressure Putin to agree to a genuine peace agreement. Those opposed to arming Ukraine argued that Putin could use the move as an excuse to escalate the conflict beyond the desire to respond, thereby increasing the level of violence. Some experts concluded that escalation could have resulted in a new Cold War, eliminating the possibility for U.S.-Russian cooperation on key issues elsewhere. Others felt it would also split Western unity on Russia policy, as France and Germany were strongly opposed to arming the Ukrainians.⁵²

Outlook

While the intensity of the fighting between Russian-supported pro-separatists and the Ukrainian military along the demarcation line has significantly receded, sporadic, but intense, fighting has occurred and fatalities/casualties continue to result. In addition, not all of the rebel-held medium and heavy military weapons have been completely withdrawn, and there have been periodic reports that weapons and ammunition continue to cross into eastern Ukraine from Russia. Nevertheless, many analysts believe that the resumption of large-scale fighting in eastern Ukraine is not likely in the short term.

⁵¹ See <http://www.durbin.senate.gov/newsroom/press-releases/durbin-portman-lead-bipartisan-senators-calling-for-increased-military-assistance-to-ukraine>.

⁵² See for example <http://www.brookings.edu/research/opinions/2015/02/06-aiding-ukrainian-military-goad-putin-war-gaddy-hill>.

Ukraine continues to face two serious internal political challenges. First, the collapse of the governing coalition, followed by the prolonged discord over how to create a new government and avoid national elections, stymied the political process and fueled doubts among the public. Instability increased in part due to the reemergence of powerful oligarchs and others with entrenched interests in not seeing too much change and attempting in subtle ways to derail the reformist agenda. The newly formed government under Prime Minister Groysman comes into office with weak support and serious concerns regarding the commitment to reform.

The second internal challenge appears to be a dispute between those who do not want to implement parts of Minsk-2 or accommodate the separatists at all and those who want to keep the process moving forward as long as the other side appears willing to do so. These challenges threatened the ability of the Poroshenko/Yatsenyuk government to address other pressing reforms and eventually contributed to the collapse of Yatsenyuk's government. The new government under Groysman has little public confidence in its willingness to seriously tackle some of the oligarchs, who seem to be the root cause of much of the corruption, and with Poroshenko's own commitment to a reform process, the stage had been set for a potentially significant period of instability and the possible necessity of a new national election in the fall.

On the other hand, the pro-separatist rebels in the Donbas do not seem to be moving forward in implementing their parts of the Minsk-2 agreement. Although elections are supposed to take place in the disputed territory, it appears unlikely at this time that the pro-separatists will allow a totally free or fair election. It also appears unlikely that pro-Kyiv political candidates will actually be permitted to campaign in the region or that the separatists will allow government officials from Kyiv into the region to help organize the elections, print ballots, and monitor polling places. And, although President Putin apparently told the Normandy Group that the OSCE would have total access to the area to monitor the elections, many seem doubtful that the rebels would allow such access to all voting places or guarantee the election observers' safety.

This, of course, could change as Putin observes the political chaos in Kyiv and assesses the mood of European countries and United States to support Kyiv. Putin could offer to hold elections anyway, though they likely would be flawed. He could conclude that for the West, progress—however imperfect—would nevertheless be progress, and that would be good enough for Putin's overall plans for Ukraine.

All of this, whether it is the internal political dynamics in Kyiv or the evolution of a “frozen conflict” in the east, makes it more difficult for the government in Kyiv to address political reform, corruption, and economic growth. If the current government, or its successor, shows weakness or loses its base of power and thus its ability to get things done, a new political crisis could arise among the frustrated general public, which is becoming increasingly skeptical of the ability of any political figures in Kyiv to significantly address problems facing the country. Any such political crisis could also result in a slowing of the implementation of Minsk-2 and further movement toward a “frozen conflict” in the east in which Russia would be able to manipulate the intensity of political unrest and future fighting in order to further hinder Ukraine's economic and political consolidation, as well as its integration with the West.

There is renewed fear in Kyiv that with Putin's objectives in Syria well on their way to being realized, Putin has turned his attention back to Ukraine. What remains unclear is exactly what Putin would intend to do. According to some, the current political uncertainty in Kyiv could tempt Moscow to take further efforts to undermine Kyiv's efforts to reform the country.

Some point to August 2016 as a critical period for any additional Russian actions in Ukraine. In July, the EU may extend its sanctions on Russia over Ukraine for an additional six months without any changes. Also in July, NATO holds its summit in Warsaw, at which anti-Russia

rhetoric, additional defense commitments to Eastern Europe, and support for Ukraine will be high on the agenda. Moscow has not reacted well to Europe's continued sanctions or to recent NATO summits, and these events may be no different, placing Ukraine in the Kremlin's crosshairs and posing substantial risks for the interests of the United States and the EU to promote stability, security, and economic development in Ukraine.⁵³

⁵³ Steven Pifer, "Crisis over Ukraine," Council on Foreign Relations, October 2015.

Appendix. U.S. Sanctions on Russia

After an initial round of sanctions imposed on Russia for its annexation of Crimea and military activity in eastern Ukraine, the United States and the EU continued to add additional travel freezes, visa restrictions, and economic sanctions on Russia for its failure to cease its support for the pro-separatists actions in the Donbas regions of eastern Ukraine.

On March 20, 2014, the Administration announced asset freezes on 16 high-ranking Russian government officials and members of parliament. Four additional persons, all wealthy businessmen, were sanctioned as members of Putin's "inner circle." One bank, Bank Rossiya, was also sanctioned due to its role as the personal bank of senior Russian officials.⁵⁴

On April 28, the Administration imposed asset freezes on an additional seven senior Russian officials. They include Igor Sechin, the president of Rosneft, Russia's leading oil company, and former chief of staff to Putin. The Administration also sanctioned 17 entities, including banks and other businesses. The companies appear to have been chosen due to their links to sanctioned persons in Putin's inner circle, such as energy trader Gennedy Timchenko and bankers Arkady and Boris Rotenberg, or to Bank Rossiya.⁵⁵ Due to privacy laws, the names of those receiving visa bans have not been made public, but it is likely that they include those persons under asset freezes.

On July 16, 2014, the United States imposed sanctions unilaterally on key firms in Russia's financial, energy, and military technology sectors—including Gazprombank, Vnesheconombank (VEB), Novatek, and Rosneft. U.S. firms and persons are barred from dealing in new equity or loans of greater than 90 days maturity for these companies. On July 27, the Administration responded by adding Bank of Moscow, VTB Bank, and Russian Agricultural Bank to the list of companies with restricted access to U.S. capital markets. In addition, the U.S. assets of United Shipbuilding Company were frozen.

In September 2014, in response to a separatist offensive in Ukraine supported by Russian combat troops, the United States imposed sanctions against additional key Russian companies, including Transneft, Lukoil, Gazprom Neft, Rostec, Surgutneftegaz, and Sberbank.⁵⁶

On December 19, 2014, the President issued an executive order to bar any U.S. person from participating in new investment in Crimea; imports from and exports to the Crimea region; and any financing, facilitation, or guarantee of any related transaction by a U.S. person.⁵⁷

After the Malaysian Airlines tragedy on July 17, 2014, the EU largely matched and even in some cases went beyond U.S. sanctions. On July 22, EU foreign ministers agreed to expand Ukraine-related sanctions against Russia by adding individuals and companies to the existing travel ban and asset freeze list, including some persons in Putin's inner circle.

⁵⁴ For a list of Russian figures sanctioned in March, see <http://www.treasury.gov/press-center/press-releases/Pages/jl2331.aspx>. For the text of the executive order greatly expanding the scope of sanctions, see <http://www.whitehouse.gov/the-press-office/2014/03/20/executive-order-blocking-property-additional-persons-contributing-situation>.

⁵⁵ For a list of Russian figures sanctioned in April, see <http://www.treasury.gov/press-center/press-releases/Pages/jl2369.aspx>.

⁵⁶ See <http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20140912.aspx>.

⁵⁷ For more on U.S. sanctions on Russia, see CRS Insight IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*, coordinated by Dianne E. Rennack. For more on the economic impact of sanctions on Russia, see CRS Report R43895, *U.S. Sanctions on Russia: Economic Implications*, by Rebecca M. Nelson.

On July 29, the EU agreed to impose sanctions on Russia's financial, defense, and energy sectors. These sanctions were strengthened in September, in response to a massive Russian-supported offensive in Ukraine. The sanctions barred EU nationals and companies from providing loans to five major Russian state-owned banks and barred trade in new bonds, equity, or similar financial instruments with a maturity exceeding 30 days, issued by the same banks. The same restrictions were also extended to three major Russian defense companies and three major energy companies. The EU banned certain services necessary for deep water oil exploration and production, Arctic oil exploration or production, and shale oil projects in Russia. The EU has also banned exporting dual-use goods and technology for military use in Russia. The EU also added new persons to its travel ban and asset freeze list.

In December 2014, the EU banned or restricted most European investment, trade, and tourism with Russian-occupied Crimea. As of January 2015, the EU has sanctions on 150 persons and 28 entities. The EU is currently considering additional sanctions in response to Russian support for a separatist offensive in eastern Ukraine in January and February 2015.

In an announcement published in the U.S. *Federal Register* on September 2, 2015, the U.S. Administration said it was adding 29 people to its sanctions list. Some of those added have ties to Kremlin-linked insiders and companies who were previously sanctioned, including Gennady Timchenko, a wealthy oil trader believed to be close to President Vladimir Putin.

A total of 33 companies or other entities were cited, including subsidiaries of state-owned oil giant Rosneft, headed by Putin ally Igor Sechin, and the company that manufactures Kalashnikov assault rifles.

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